

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 L-03 FRB-03 OMB-01 ITC-01 SP-02

USIA-06 AGRE-00 AID-05 CIAE-00 COME-00 EB-07 INR-07

LAB-04 NSAE-00 OIC-02 SIL-01 STR-04 TRSE-00 CIEP-01

CEA-01 AF-08 ARA-06 EA-07 NEA-10 /105 W

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R 111257Z JAN 77

FM US MISSION EC BRUSSELS

TO SECSTATE WASHDC 0000

INFO ALL EC CAPTIALS 2961

US MISSION GENEVA 7212

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US MISSION OECD PARIS 3889

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E.O. 11652: N/A

TAGS: EEC UNCTAD ETRD EMIN

SUBJECT: UNCTAD COMMON FUND NEGOTIATIONS - EC PREPARES OPTION PAPER

REF: (A) BONN 389, (B) EC BRUSSELS 200, (C) 76 EC BRUSSELS 11377

1. SUMMARY: EC COMMISSION AND PERMDEL OFFICIALS EXPECT THE CURRENT EC IMPASSE IN UNCTAD NEGOTIATIONS OF A COMMON FUND TO CONTINUE. AS A RESULT, MEMBER STATES WILL CONSIDER NEXT WEEK A NEW APPROACH: ADOPTING A POSITIVE BUT NON-COMMITTAL TONE AND ENCOURAGING THE G-77 TO EXAMINE THE FUND'S FEASIBILITY. THE COMMISSION STAFF IS CONSIDERING VARIOUS ALTERNATIVES TO THE FUND - STABEX, IMF FINANCING AND A BANKING FACILITY. ONE OF THESE MIGHT BE PROPOSED AS A PART OF FINAL CIEC PACKAGE. END SUMMARY.

2. EC COMMISSION AND PRMDEL OFFICIALS TELL US OF THEIR PLANS FOR THE FORTHCOMING UNCTAD NEGOTIATIONS ON A COMMON FUND FOR COMMODITIES. THE NIE ARE NOT EXPECTED TO

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REACH AGREEMENT ON A COMMON FUND IN TIME FOR THE MARCH UNCTAD NEGOTIATIONS. INSTEAD, THE COMMISSION STAFF IS NOW SUGGESTING THAT THE EC TREAT THE NEGOTIATIONS PRIMARILY AS A POLITICAL PROBLEM WHICH NEEDS TO BE MANAGED SO AS TO AVOID A ROW WITH THE LDCS. THE EC SHOULD STRIVE TO BROADEN THE UNCTAD DISCUSSIONS IN HOPES OF REACHING AN ACCEPTABLE

FORMULA ON COMMODITY ARRANGEMENTS. THESE DISCUSSIONS COULD ALSO LAY THE GRONDKWORK FOR A G-8 INITIATIVE IN CIEC.

3. THE STAFF, SUPPORTED AT LEAST BY THE UK PERMDEL, CONSEQUENTLY PROPOSES THAT EC ADOPT A POSITIVE TONE TOWARD THE FUND, BUT THAT IT ASK SEARCHING QUESTIONS TO POINT OUT THE IMPRACTICAL ASPECTS OF THE UNCTAD PROPOSAL. HOPEFULLY THE MARCH NEGOTIATIONS CAN BE SHORTENED AND THE G-77 WILL AGREE TO PUT OFF A DECISION ON THE FUND. THIS WOULD ALLOW TIME FOR THE CIEC G-8 TO CONSIDER VARIOUS ALTERNATIVES TO THE COMMON FUND. THE CIEC COULD THEN TAKE UP SOME OTHER FORM OF FINANCIAL SUPPORT FOR COMMODITIES.

4. AS INDICATED IN REF A, COMMISSION AND UK PERMDEL OFFICIALS HAVE SEVERAL ALTERNATIVES IN MIND. THE STAFF HAS SUGGESTED ESTABLISHING A BANKING FACILITY WITHIN THE IBRD OR SOME OTHER IFI, WHICH WOULD PROVIDE LOANS TO FINANCE BUFFER STOCKS OF INTERNATIONAL COMMODITY AGREEMENTS. THESE LOANS WOULD BE USED TO START UP STOCKS OR TO SUPPLEMENT AN AGREEMENT'S OWN RESOURCES IN TIME OF SPECIAL NEED. COMMISSION OFFICIALS ARE ALSO TAKING ANOTHER LOOK AT A WORLDWIDE SYSTEM TO STABILIZE LDC EXPORT EARNINGS (STABEX). SOME OFFICIALS FAVOR LIMITING SUCH A SYSTEM TO A NARROW GROUP OF COMMODITIES AND TO A FEW LDCE WHICH ARE HIGHLY DEPENDENT ON ONE OR TWO COMMODITIES. THE STAFF IS ALSO CONSIDERING EXPANDING THE IMF COMPENSATORY FINANCING FACILITY LIMITED OFFICIAL USE

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AND TRUST FUND AND MODIFYING THESE FACILITIES TO MAKE THEM MORE ATTRACTIVE TO THE LDCE. FOR EXAMPLE, THE IMF MIGHT TAKE INTO ACCOUNT THE INCREASED COST OF LDC IMPORTS WHEN DETERMINING THE LEVEL OF FINANCING TO THE POOREST LDCE. THIS FINANCING MIGHT ALSO BE ACCOMPANIED BY MEASURES TO DIVERSIFY LDC PRODUCTION.

5. AN EC WORKING GROUP WILL DISCUSS, ON JANUARY 17, VARIOUS PROPOSALS FOR THE JANUARY 24 UNCTAD PREPARATORY MEETING ON THE COMMON FUND. COMMISSION OFFICIALS HOPE TO OBTAIN SUFFICIENT MEMBER STATE AGREEMENT ON A GENERAL STRATEGY FOR THE NEGOTIATIONS THAT THE EC WILL NO LONGER BE A HINDRANCE TO GROUP B PREPARATION. INSTEAD, COMMISSION OFFICIALS WOULD LIKE TO WORK WITHIN GROUP B TO STEER DISCUSSIONS IN A CONSTRUCTIVE DIRECTION. THEY PLAN TO PREPARE A NUMBER OF QUESTIONS AND COMMENTS FOR GROUP B TO RAISE. HINTON

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